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PART-1

HARYANA GOVERNMENT

INDUSTRIES AND COMMERCE DEPARTMENT

Notification

The 31st January, 2017

No. 4/1/2017-3IB-II.— pursuant to the decision taken by the Government to implement MDA Scheme of the Government of India in State of Haryana. Governor of Haryana is pleased to notify the scheme of Marketing Development Assistance on production in place of rebate to Khadi Institutions certified by Haryana Khadi & Village Industries Board and Khadi & Village Industries Commission.

The details of the Scheme are given below:-

1. BACKGROUND

- 1.1 Khadi is handspun and hand woven cloth made by around a million traditional rural artisans. Handspun and hand woven characteristic is the Unique selling Proposition of Khadi. Govt. of Haryana has been providing sales promotional assistance, popularly known as rebate on the retail sale value of Khadi in order to facilitate the product to compete with other textile products in the market.
- 1.2 The rebate scheme provide discount on khadi and polyvastra at retail point.
- 1.3 The rebate scheme has been studied by several committees to assess its effectiveness in increasing sale of khadi. Based on the recommendations of these Committees, Government of India decided to introduce the scheme of Market Development Assistance on Production in place of rebate after experimenting with several pilot schemes. The scheme has helped Khadi sector to reorient their activities extending adequate emphasis towards increasing artisan; earnings as well as ensuring quality of Khadi to customers.
- 1.4 **Salient features of the MDA Scheme:**
 - 1.4.1 The cost chart will continue only for the purpose of calculating value of production of raw khadi up to 'Wet Processing' stage to serve as the basis of calculating MDA thus, decontrolling and de-linking the sale price from the cost chart in the MDA scheme and offering scope to the institutions to add value to Khadi so that the products can be sold at market determined price. In short, the scheme offers scope for dynamic pricing for Khadi and Polyvastra products.
 - 1.4.2 The scheme of MDA on Production aims at uniform distribution of sales throughout the year unlike the existing rebate scheme where most of the sale takes place during the special rebate season of 108 days.
 - 1.4.3 A well-dispersed sale spread over the year would help Khadi Institutions to keep inventory levels down, thereby offering greater scope for mobilization of required working capital.

- 1.4.4 A fixed portion of MDA assistance will go directly to the artisans as special incentive/bonus and increase their earnings.
- 1.4.5 Institution-wise target for production under MDA scheme of the state will be fixed by KVIB with the approval of Director of Industries and Commerce, Haryana.
- 1.4.6 MDA will be released on quarterly basis by KVIB against claims to be submitted by the institutions.
- 1.4.7 MDA is being proposed initially for financial year 2016-17 and the same will be continued after assessing its impact. MDA would not be biased towards high-value segment of the Khadi market and the Khadi institutions would have the flexibility to produce what the market wanted. An institution availing Production Incentive will not be eligible for MDA at the same time.

2. DEFINITION OF MDA

MDA on Production is an assistance proposed to be provided on cost of production of Khadi and Polyvastra achieved by the certified Khadi institutions. The Khadi institutions, having **production centres in State of Haryana** with valid Khadi certificate and categorized as A+, A, B and C, are only eligible to avail MDA grant from KVIB.

3. Rate of MDA

MDA shall be allowed @ 10% on cost of production of Khadi (Cotton, Silk, Woollen) and Polyvastra to the extent of production target recommended by KVIB and approved by the Director of Industries and Commerce, Haryana for the year.

4. DEFINITION OF PRODUCTION

- 4.1 The Khadi production activity is a composite activity of spinning, weaving and wet processing of khadi encompassing cost of raw material, hand spinning by registered spinners and weaving on handloom by registered weavers including spinners/reelers and weavers wages/conversion charges and provision for their social security measures, wet processing (bleaching, dyeing, finishing, printing) etc. Conversion of Khadi cloth into ready to wear and ready to use items will not constitute cost of production.

- 4.2 Cost of Production

The Cost of production in the context of khadi and Polyvastra for the purpose of MDA includes the following:

Cost of raw material

+

Spinning/reeling and weaving charges including process wastage artisan incentive and Artisan Welfare Fund etc.

+

Wet processing viz. Bleaching, dyeing, mercerizing, finishing and printing Charges etc...along with process waste

+

Permissible provisions such as trade expenses, Bank interest, insurance etc*.

+

Allowable margin** (to meet establishment expenditure)

Note:

- The value addition charges for conversion of cloth into readymade, embroidery etc., shall not be included in the cost of production, as the market forces would determine prices of such value added products.
- Producing Institution for the purpose of MDA will mean the institution engaged in the activity of production of Khadi.
- Selling Institution or sales outlets including departmentally run units of KVIC and KVIBs for the purpose of MDA will mean the institutions engaged in the activity of selling of Khadi purchased from producing institutions.
- Composite Institutions will mean the Institutions engaged in the activity of producing and selling of Khadi.
- Composite institutions can also purchase Khadi from exclusive producing institutions and they can also sell Khadi to Selling institutions.

- The formula for calculation of MDA based on production in the context of Khadi will also be applicable for polyvastra.
- As regards the permissible provision, the existing guidelines of KVIC stipulated provision @ 3%, 4% and 1% on the prime cost for trade expenses, bank interest, insurance respectively.
- The term allowable margin means the margin permitted by the Central Certification Committee of KVIC to meet the establishment expenditure. As per the existing guidelines, the establishment margin permitted for Cotton Khadi is 20% on the prime cost. The same for Muslin, Wool and Silk is 25%. For polyvastra the allowable margin is also 25% of the prime cost.
- The prime cost means the cost of raw material plus conversion charges up to grey cloth plus processing charges but DOES NOT include provision for trade expenses (3%), bank interest (4%), insurance (1%) and provision for establishment expenditure as given costing structure of KVIC.

5. MECHANISM AND PURPOSED FOR UTILIZATION OF MDA GRANT

- 5.1 The MDA on production scheme offers flexibility to Khadi institutions to go for need based utilization of funds towards verifiable and tangible interventions and the activities for improving the earning of artisans and also to improve the market for khadi and polyvastra. Accordingly, the proposed MDA @ 10% of the cost of production of Khadi and Polyvastra shall be apportioned among the artisans, khadi producing institution and selling institutions as detailed below:
- 5.2 The total amount of MDA on production will be claimed by the producing institution from the KVIB and will be distributed amongst the stake holders viz. Spinners and weavers, producing institutions and selling institutions in the ratio 25%, 30% and 45% respectively.
- 5.3 25% of total MDA amount shall be passed on to the spinners and weavers in the form incentive or 'bonus' through their bank or post office accounts, in addition to their normal earnings as prescribed in the cost chart. Such additional wages out of MDA grant should not be included in the cost of Khadi.
- 5.4 The above 25% of MDA amount cannot be used for extending assistance to the workers who are employees of the institutions and engaged to over see the production activity and sales/marketing accounts etc...
- 5.5 30% of total MDA amount will be utilized by Khadi producing institutions towards implements/training/capacity building.
- 5.6 The producing institution will transfer the 45% of total MDA amount, ear marked for selling institutions as per the scheme, to the selling institution at the time of whole sale. The transfer should be through invoice. This MDA amount will be utilized by the selling institution on renovation/modification of sale outlets, training of salesperson, computerization, development of designs, publicity, discounts (if required). Khadi institutions selling khadi on wholesale, will have to pass on the same (45% of total MDA) to purchasing institutions.
- 5.7 Production of Khadi and polyvastra products for the purpose of Govt. supplies under Rate Contract(RC) of DGS &D to be made against the whole sale target approved by Standing Finance Committee of KVIC is not eligible fully for MDA, as these items are not sold through retail outlets. Hence, such items are not qualified for the MDA support earmarked for retail sale activity. Therefore, RC items will be eligible for 11% MDA instead of 20% as applicable in normal Khadi.
- 5.8 Any amendment to this formula will have to be approved by the Ministry of MSME as and when required, on the basis of recommendations of KVIC after the actual performance is monitored and any anomaly observed in the scheme is removed.

6. STEPS/ SAFEGUARDS TO ENHANCED WAGES OF ARTISANS

The following points will be adhered to in ensuring higher earning of artisans:

- (a) While obtaining undertaking for utilization of the funds for specific purposes clear indication will be made in the MDA claims format by the institution to the effect that the institution will take steps to enhance artisans' wages without compromising quality of cloth and designs.
- (b) The institution will have to pay artisans at regular intervals preferably fortnightly and no later than monthly, and through bank or post office account and maintain a record for verification of payments made to each artisan.
- (c) The institution will remit money to the State Level Artisans Welfare Fund to the State Level Trust and the receipt of remittance of fund should be attached with the claims format.

- (d) The institutions have to cover all artisans within the ambit of Khadi Karigar Janashree Bima Yojana, introduced by KVIC and such other welfare schemes to be introduced by KVIC with the approval of Ministry from time to time.
- (e) While submitting the claims for quarterly release of MDA, the producing institution will also furnish a certificate to the effect that the MDA portion of spinners and weavers and selling institutions in the ratio 25% and 45% respectively, for the previous quarter, has been released to their satisfaction. Any default in this regard will be taken in to account by KVIB while releasing the payment of MDA for the next quarter.
- (f) Compliance of all the above points will be ensured by KVIB while setting the MDA claim of each institution.
- (g) KVIB will conduct random checks of at least 10% of the MDA claims which will include physical verification of all transactions with particular reference to the pass books, issued to artisans and other payments made to artisans and expenditure made on capacity building etc...

7. PERIODICITY OF MDA CLAIM

- 7.1 Production institutions shall submit quarterly claim of MDA based on the actual production achieved during the preceding quarter of the financial year. The difference, if any, would be adjusted in the last quarter of the financial year on the basis of audited accounts by the Chartered Accountants. MDA shall be preferably reimbursed electronically by State office of KVIB on quarterly, basis as detailed under:

Period of MDA claims (Quarters: I/II/III/IV)	Date by which MDA claim to be submitted by the Institution	Date by which MDA claim to be settled by KVIB
Quarter I	15 th July	15 th August
Quarter II	15 th October	15 th November
Quarter III	15 th January	15 th February
Quarter IV	15 th April	15 th May

- 7.2 The settlement of MDA claim by KVIB includes actual release of payment through mode of 'electronic transfer/ RTGS'.
- 7.3 The State offices of KVIB will be responsible for ensuring the timely settlement of MDA claim and submit a quarterly report on 1st September, 1st December, 1st March and 1st June to Director of Industries and Commerce Haryana indicating the claims received, claims settled and the reasons for non-settlement of claims within the stipulated period during the previous quarter.
- 7.4 The funds will be released to KVIB on quarterly basis in the light of claim statement furnished by State Office of KVIB. **The fund for the first quarter of first year of implementation will be released in advance to KVIB in the month of July and thereafter, the funds will be released on quarterly basis on the basis of actual claims settled in previous quarter.**
- 7.5 The KVIB will furnish a quarterly report to the State Government indicating the consolidated information on utilization and disbursement of MDA grant to the institutions by 15th of the month following the prescribed dates for settlement of MDA claims for the quarter in question. The release of funds for MDA will be dependent on the receipt of the quarterly progress report from the KVIB.
- 7.6 Utilization of MDA grant will also be reviewed by the State Government during review of plan fund utilization by KVIB. The MDA claims will also be open for 'internal audit' by the Principal Accountant General, Haryana.

8. CLOSING STOCK

- 8.1 The closing stock will be worked out as follows:

$$\text{Closing Stock} = \text{Opening Stock} + \text{Production} + \text{Purchases (-) Sales (Retail Sales + Whole Sales)}$$

- 8.2 The institutions will furnish the closing stock position as on 31.03.2017 immediately after completion of the financial year, to the KVIB in the form of an Annual Stock taking statement (centre-wise) duly signed by the authorized stock taking persons of the institution with signatures of the authorized office bearers of the institutions.
- 8.3 The KVIB shall ensure proper check/monitoring on this aspect through audit wing/khadi wing to conduct random test check while conducting the audit and technical monitoring inspection respectively.
- 8.4 The closing stock position shall also be authenticated from the audited balance sheet duly certified by the Chartered Accountant.
- 8.5 The KVIB will ensure that the institutions have submitted the Annual Stock Statement in time to their respective offices and it will also be recorded in the record note Budget discussions.

9. PERIOD OF UTILIZATION OF MDA

Utilization of MDA for certain purposes such as modernization, renovation, research and development etc. will take a period of more than one year. In such cases, the Khadi institutions will be allowed to spend MDA up to two years from the date of actual receipt with specific sanction from the KVIB. In order to manage the MDA amount effectively, it will be mandatory on the part of the institutions to maintain a separate bank account which will be subject to verification by KVIB.

10. DOCUMENTATION FOR MDA CLAIMS

MDA shall be disbursed to eligible institutions on their submission of detailed claims as per the prescribed format. The KVIB shall furnish the quarterly details of settlement of MDA claims to the Director of Industries and Commerce Haryana within a period of one month after expiry of each quarter and a consolidated statement for the whole financial year at the end of the year.

11. FURNISHING OF UTILIZATION CERTIFICATE

- 11.1 The Khadi institutions availing MDA will be bound to furnish utilization certificate annually as rendered by registered Chartered Accountants (CA) clearly indicating registration number, address of the CA will be circulated from time to time by KVIB. KVIB in turn will furnish the Utilization Certificate to the State Government in Form 19A disclosing whether specified, quantified and qualitative targets that should have been reached against the amount utilized were in fact reached and if not, the reasons there of.
- 11.2 CA while furnishing the utilization certificate of MDA, is expected to report on financial propriety, compliance to rules, regulations, guidelines issued by KVIB, financial sanctions etc. and to satisfy themselves as to existence of infrastructure – charkhas, looms, artisans, availability of raw material, appropriate application of utilization of MDA on areas agreed etc. and only after being satisfying on these points will authenticate the utilization certificates.
- 11.3 The CA concerned would issue the utilization certificate directly addressed to State office of KVIB, so that the accountability and genuineness could be ascertained.

12. TEST CHECK/TEST AUDIT AND MONITORING OF MDA ON PRODUCTION.

- 12.1 KVIB shall conduct test audit/check of MDA claims through its Audit Teams, in respect of all the institutions availing MDA. The KVIB will reserve its right for such test audit/check and in case of any misutilization, it may order for complete audit of accounts of the Khadi Institution. The MDA claims will also be open for 'internal audit' by the team of the officials of KVIB.
- 12.2 As the funds for MDA would be extended from public funds, the Office of Principal Accountant General, Haryana will have the right of conducting audit/test check of otherwise as decided by that office.

13. DISPUTE SETTLEMENT IN TRANSFER OF MDA

- 13.1 In case of non transfer or improper transfer of MDA by the producing Institutions to other stake holders especially the selling institution, the stake holder should bring such transactions immediately (within one month of transaction) to the notice of State office of KVIB who will direct the producing institutions transfer the eligible portion of MDA forthwith. In case the Khadi producing State/Divisional) will deduct the amount from the claim of the Khadi producing institutions and remit to the stake holders including selling institutions. In case of further any irregularity, Director of Industries and Commerce, Haryana will intervene and issue necessary directions.
- 13.2 No penalty will be charged for first transaction and for subsequent transactions, the State officer of KVIB will arrange recovery of eligible MDA amount along-with 5% interest calculated from the date of transaction and pay to artisans and weavers and the selling institution.
- 13.3 The Director of Industries and Commerce, Haryana shall be the appellate authority for all disputes and all Khadi institutions will be bound by his decision.

Note: Any provision of the MDA scheme of the Government of India if not mentioned herein will be applicable to the scheme in settling rebate claims of the institutions by KVIB and Director of Industries and Commerce, Haryana.

Chandigarh:
The 27th January, 2017.

DEVENDER SINGH,
Principal Secretary to Government Haryana,
Industries and Commerce Department.